

TAX TIPS FOR FILING A 2009 RETURN



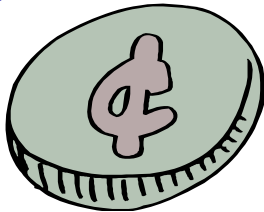


General Tax Changes for 2009

Exemption and Standard Deduction



- Personal exemption is **\$3,650** (from \$3,500)
- Standard deduction:
 - **MFJ/QW(er)** **\$11,400**
 - **H/H** **8,350**
 - **Single/MFS** **5,700**



Additional Standard Deduction



- The additional standard deduction amounts for age 65 or older and/or blind are **\$1,100** (from \$1,050) for MFJ, MFS, and QW and **\$1,400** (from \$1,350) for single and HH.



Earned Income Credit



The maximum amount of credit has increased to:

- **\$5,657** if have **THREE** or more qualifying children
- **\$5,028** if have **two** qualifying children
- **\$3,043** if have **one** qualifying child
- **\$457** if **do not** have a qualifying child

Earned Income Credit



- **Three or more** qualifying children and earn less than **\$43,279 (\$48,279 if MFJ)**
- **Two** qualifying children and earn less than **\$40,295 (\$45,295 if MFJ)**
- **One** qualifying child and earn less than **\$35,463 (\$40,463 if MFJ)**
- **No** qualifying child and earn less than **\$13,440 (\$18,440 if MFJ)**



Additional Child Tax Credit

- The earned income amount used to figure the additional child tax credit is 15% of the income in excess of **\$3,000** (down from \$8,500).



Wage Limits

- The maximum amount of wages subject to social security tax has increased to **\$106,800** (from \$102,000).



Standard Mileage Rate

- For all **business miles** driven, the standard mileage rate for operating a car, van, or pickup truck is **55 cents** per mile (from 50.5/58.5 cents).



IRA Contribution and Deduction Limit



- The contribution limit for a traditional IRA as well as a Roth IRA remains at **\$5,000** or taxable compensation for the year, whichever is the **smaller** amount.
- If the taxpayer is 50 years of age or older the limit remains at **\$6,000** or taxable compensation for the year, whichever is the **smaller** amount.



Modified AGI Limit for Traditional IRAs



- If a taxpayer is covered by a retirement plan at work, the deduction will be reduced (phased out) if the modified AGI is between:
 - **\$89,000 - \$109,000** for **MFJ or QW**
 - **\$55,000 - \$65,000** for **single or H/H**
 - **\$0 - \$10,000** for **MFS**



Modified AGI Limit for Traditional IRAs



The limit for the spouse of a covered employee is:

\$166,000 - \$176,000 for MFJ
(from \$159,000 - \$169,000)

\$0 - \$10,000 for MFS



Roth IRA Contribution Limits



The Roth phase out range increases to:

- **\$166,000 - \$176,000** (from \$159,000 - \$169,000) for MFJ and QW
- **\$105,000 - \$120,000** (from \$101,000 - \$116,000) for single, HH, and MFS
- **\$0 - \$10,000** for MFS who lived with spouse at any time during 2009

Retirement Savings Contribution Credit

Modified AGI increase for:

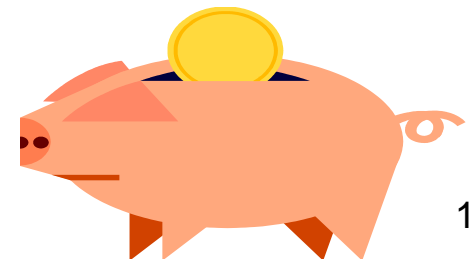
- **MFJ**

50% credit: up to **\$33,000**

20% credit: over **\$33,000** and up to **\$36,000**

10% credit: over **\$36,000** and up to **\$55,500**

The AGI cannot exceed **\$55,500**.



Retirement Savings Contribution Credit



- **HH**

50% credit: up to **\$24,750**

20% credit: over **\$24,750** and up to **\$27,000**

10% credit: over **\$27,000** and up to **\$41,625**

The AGI cannot exceed **\$41,625**



Retirement Savings Contribution Credit

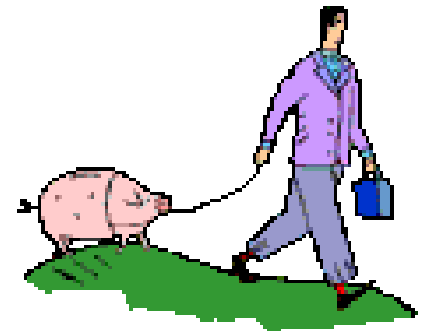
- **Single, QW, and MFS**

50% credit: up to **\$16,500**

20% credit: over **\$16,500** and up to **\$18,000**

10% credit: over **\$18,000** and up to **\$27,750**

The AGI cannot exceed **\$27,750**



Tax Benefits for Adoption



- Maximum adoption credit or exclusion increases to **\$12,150** (from \$11,650).
 - If child has special needs, this amount is allowed even if there are no qualifying expenses.
- *A special needs child is a child who is a citizen or resident of the US that the state has determined cannot or should not be returned to the parents' home and probably will not be adopted unless adoption assistance is provided to the adoptive parents.*

Education Credits

- **Changes to the Hope credit (now the American Opportunity Credit).**
- **The credit** increases to **\$2,500** (from \$1,800) **per student.**
- The credit can now be claimed for the **first four years** of post-secondary education.
- **40%** of the credit is now a refundable credit.
- Qualified tuition and related expenses is expanded to include **books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment.**



Education Credits

- The credit is available for MFJ whose modified AGI is less than **\$180,000** (from \$116,000), with the phaseout beginning at **\$160,000** (from \$96,000) .
- For single and HH the credit is available if the modified AGI is less than **\$90,000** (from \$58,000), with the phaseout beginning at **\$80,000** (from \$48,000)



Education Credits



- **Lifetime learning credit** remains at **\$2,000**.
- The amount of the lifetime learning credit is phased out at a modified AGI between **\$50,000** and **\$60,000**, for MFJ **\$100,000** and **\$120,000** (from \$48,000; for MFJ \$96,000).



Annual Gift Tax Exclusion

- The gift tax exclusion increases to **\$13,000** (from \$12,000).



Tax Changes for Individuals

Form 8332

- A noncustodial parent claiming an exemption for a child can no longer attach certain pages from a divorce decree or separation agreement instead of **Form 8332**. This applies only if the decree or separation agreement was executed **after 2008**.
- Form 8332 or similar statement signed by the custodial parent must be used to release a claim to the exemption.



New Credits



ECONOMIC RECOVERY PAYMENT

Payments were made to people who:

- ✓ Receive social security benefits, SSI, railroad retirement benefits, or veterans disability compensation or pension benefits, and
- ✓ Live in U.S. state, D.C., Puerto Rico, Guam, U.S. Virgin Islands, American Samoa, or the Northern Mariana Islands.



Any economic recovery payment (\$250 or \$500 if MFJ and both are eligible) received during 2009 is **not** taxable.

New Credits



MAKING WORK PAY CREDIT

A taxpayer may be able to take this credit if he or she has earned income from work.

The credit **cannot** be taken if:

- ✓ The modified AGI is \$95,000 (\$190,000 if MFJ) or more
- ✓ A nonresident alien
- ✓ Can be claimed as a dependent on someone else's return

New Credits

MAKING WORK PAY CREDIT

The credit is 6.2% of earned income but cannot be more than **\$400 (\$800 if MFJ)**.

The credit will be **reduced** if:

- ✓ The \$250 economic recovery payment is received
- ✓ The government retiree credit is taken
- ✓ The modified AGI is more than \$75,000 (\$150,000 if MFJ)

New Credits

- To take the credit, TP must have a SSN. If filing MFJ, at least one spouse must have an SSN.
- **Schedule M** will be used to figure both the making work pay credit and the government retiree credit.
- Both credits are refundable.
- Available for 2009 and 2010



Unemployment

- The first **\$2,400** of unemployment compensation is excluded from income in 2009.



Additional Standard Deduction



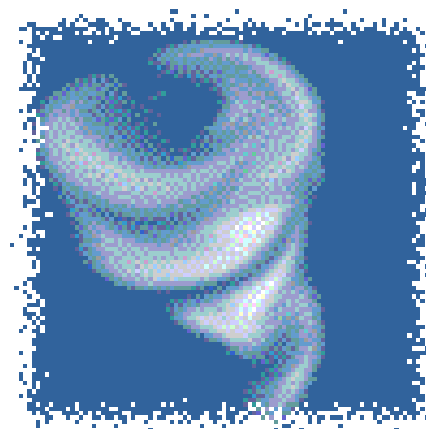
- Taxpayers who pay real property tax and do not itemize, can continue to take an additional standard deduction of up to **\$500** (\$1,000 if MFJ).



Casualty Loss



- Each personal casualty or theft loss is allowed as an itemized deduction (or as an addition to the standard deduction) only to the extent the loss exceeds **\$500**.
- No change to 10% AGI limit on losses.
- Losses in a federally declared disaster area are not reduced by 10%.



First-Time Homebuyer's Credit



- Refundable credit for 10% of home purchase price up to **\$8,000** (\$4,000 if MFS) for qualified first time homebuyers.
- A first-time home buyer is someone (and, if married, the spouse) who had no ownership interest in a principal residence in the United States during the **3-year** period prior to the purchase of the home.



First-Time Homebuyer's Credit



- Must be for a principal residence for which the **purchase agreement** was signed by **April 30, 2010**. If a taxpayer enters into a **binding contract before May 1, 2010** to close on the purchase of a principal residence **before July 1, 2010**, the credit **will not expire until June 30, 2010**.



First-Time Homebuyer's Credit



If purchased before November 7, 2009:

- No credit if modified AGI is more than **\$95,000 (\$170,000 for MFJ)**.

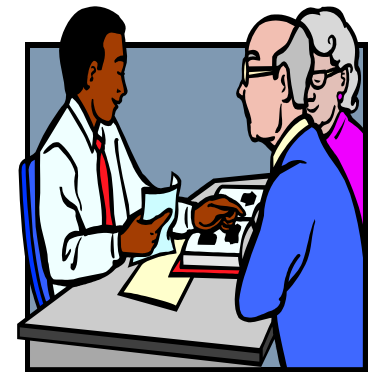


The credit does not apply if the home is purchased from a person related to the **taxpayer**.

First-Time Homebuyer's Credit



- The higher income amounts are only available for purchases made **after** November 6, 2009.
- No credit if modified AGI is more than **\$145,000** (**\$245,000** for MFJ).
- A copy of the properly executed settlement statement must be attached to the return.



The credit does not apply if the home is purchased from a person related to the taxpayer **(or taxpayer's spouse)**.

First-Time Homebuyer's Credit



- **No repayment** for those who purchased homes **after** December 31, 2008.



First-Time Homebuyer's Credit



- Taxpayers can elect to treat the purchase of a principal residence in 2009 or those made before the new deadline in 2010 as made on December 31 of the year preceding the purchase.



First-Time Homebuyer's Credit



- Home owners who have **owed** a home and **used it as a principal residence for a 5-consecutive- year period during the 8-year period ending on the date of purchase of a new home** can qualify for a home buyer's credit of **\$6,500**. Home buyers must enter into a written binding contract on the purchase of the home before **May 1, 2010** and close on their home purchase by **June 30, 2010**.

First-Time Homebuyer's Credit



For main homes purchased after November 6, 2009 and before July 1, 2010:

- No credit is allowed if the purchase price of the principal residence exceeds **\$800,000.**



Retirement Plan Distributions

- The required minimum distribution from IRAs and most retirement plans does **not** have to be made for 2009.



Energy Credit



Nonbusiness energy credit

- Increases from 10% to **30%** for qualified energy efficiency improvements installed during the year
- Limited to \$1,500 for the **total** of 2009 and 2010 purchases combined.



Energy Credit



- The nonbusiness energy credit is available for items such as high-efficiency heating and cooling systems, water heaters, exterior windows, exterior doors and insulation.
- Must meet energy efficient standards
- Reported on Form 5695



Energy Credit

- The residential energy efficient property credit is for qualified solar electric property costs, solar water heating property costs, small wind energy property costs, and geothermal heat pump property costs.



Gain From Nonqualified Use Of Home Not Excluded

Currently, taxpayers are allowed to exclude up to \$250,000 (\$500,000 on a joint return) of gain from the sale of their principal residence. Generally, taxpayers must own and occupy the residence for at least two of the five years preceding the date of sale.

A reduced exclusion is permitted for taxpayers who meet certain unforeseen circumstances.

Gain From Nonqualified Use Of Home Not Excluded

Under the new law for 2009, taxpayers will not be allowed to exclude any gain attributable to a nonqualified use.

This will prevent taxpayers from selling a second home and excluding all the gain even if they meet the two-out-of-five years ownership and use tests.



Gain From Nonqualified Use Of Home Not Excluded



Nonqualified use. The term “period of nonqualified use” means any period (other than the portion of **any period preceding January 1, 2009**) during which the property is **not** used as the principal residence of the taxpayer or the taxpayer's spouse or former spouse.



Cancelled Mortgage Debt



- The **qualified principal residence** indebtedness forgiveness exclusion is extended for an additional three years.
- The cancelled debt is excluded from the taxpayer's gross income by filing Form 982.



COBRA

- For coverage beginning **after February 17, 2009**, **employers** can take a refundable employment tax credit equal to **65%** of the COBRA premiums paid for an eligible individual for up to a 9-month period. The **individual pays the remaining 35%**.
- These payments are not taxable.
- Must be the result of involuntary termination

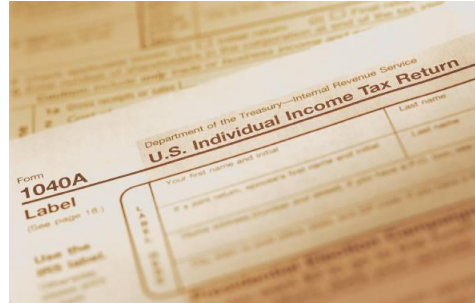


Cash for Clunkers

- The money received from the “Cash for Clunkers” program is not taxable income.



New 2009 Income Tax Forms



- **Schedule L, *Standard Deduction for Certain Filers***
- **Schedule M, *Making Work Pay and Government Retiree Credits***



Tax Updates & Changes for 2010

Personal Exemption

- Personal exemption remains **\$3,650**
- Standard deduction:
 - **MFJ/QW remains \$11,400**
 - **H/H 8,400**
 - **Single/MFS remains 5,700**

For 2010

Earned Income Credit

- The maximum EIC for taxpayers with three or more children is **\$5,666.**
- The income limit for the credit for MFJ filers with three or more children is **\$48,362.**



For 2010

Casualty Losses

- The \$500 per casualty limitation is decreased to **\$100** per casualty.



For 2010

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